



April 16, 2012

**VIA ELECTRONIC MAIL**

Mr. Russell Crosby  
 Director of Retirement Services  
 City of San Jose  
 Police & Fire Department Retirement Plan  
 1737 North 1<sup>st</sup> Street, Suite 580  
 San Jose, CA 95112

**Re: Alternate 5-Year OPEB Budget Projections for Police & Fire**

Dear Russell:

As requested by the Board in their March 1, 2012 meeting, we have estimated the future contributions over the next five years expected to be required to the City of San Jose Police & Fire Department Retiree Medical and Dental Insurance Plan (OPEB Plan). These estimates are based on Cheiron's recently completed June 30, 2011 valuation and the assumption that when the current collectively bargained phase-in with annual and ultimate caps expires, the full contribution amount under the current methodology will be required. The table below summarizes our estimated total City and employee contributions under the current methodology assuming contributions are made throughout the fiscal year and that all assumptions in the valuations are exactly realized each year, since June 30, 2011. Please refer to the actuarial valuation report for a description of the plan provisions, a summary of the data, and a summary of the methods and assumptions used in the valuation.

City of San Jose Police & Fire Department OPEB Plan Projected Total City and Employee Contributions*			
(Dollar amounts in millions)			
FYE	Payroll	Amount	Rate
2013	\$190.7	\$29.8	15.62%
2014	\$190.7	\$34.6	18.14%
2015	\$197.4	\$50.3	25.48%
2016	\$204.3	\$53.3	26.09%
2017	\$211.5	\$63.2	29.89%

\* We understand from the City that there have been no significant changes to the workforce or payroll since June 30, 2011.

Currently, the total contributions are split between current employees and the City with each contributing 50% of explicit retiree medical costs, and the City contributing 75% of retiree dental costs while current employees contribute 25%. Since it is unclear how the contributions may be split once the current phase-in agreements expire the projections only show the total contributions. Finally, the reality will be that experience will deviate from the assumptions which could have a significant impact on the projections.



Since contributions are made separately for Police and Fire members and contributions have been split between the City and employees in different proportions, the tables below provide the additional detail that may be needed for the parties to negotiate an appropriate division of future contributions assuming the same funding methods apply in the future.

City of San Jose Police & Fire Department Plans							
Police Only							
(Dollar amounts in millions)							
FYE	Payroll	Explicit Medical		Dental		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2013	\$121.7	\$19.3	15.82%	\$1.7	1.40%	\$21.0	17.22%
2014	\$121.7	\$22.2	18.22%	\$1.9	1.60%	\$24.1	19.82%
2015	\$126.0	\$34.4	27.31%	\$3.1	2.43%	\$37.5	29.74%
2016	\$130.4	\$35.0	26.81%	\$3.1	2.39%	\$38.1	29.20%
2017	\$135.0	\$36.2	26.79%	\$3.2	2.39%	\$39.4	29.17%

City of San Jose Police & Fire Department Plans							
Fire Only							
(Dollar amounts in millions)							
FYE	Payroll	Explicit Medical		Dental		Total	
		Amount	Rate	Amount	Rate	Amount	Rate
2013	\$69.0	\$8.1	11.70%	\$0.7	1.03%	\$8.8	12.72%
2014	\$69.0	\$9.7	14.10%	\$0.8	1.23%	\$10.5	15.32%
2015	\$71.4	\$11.8	16.50%	\$1.0	1.43%	\$12.8	17.92%
2016	\$73.9	\$14.0	18.90%	\$1.2	1.63%	\$15.2	20.52%
2017	\$76.5	\$21.8	28.48%	\$2.0	2.59%	\$23.8	31.07%

In addition to the amounts shown above, the City has been paying 100% of the implicit subsidy on a pay-as-you-go basis through active medical premiums. The implicit subsidy is essentially the amount that active medical premiums are increased due to the coverage of retirees. In order for the City to contribute the full Annual Required Contribution (ARC) as defined by GASB, the implicit subsidy would need to be pre-funded as well.



The following table shows estimates of pay-as-you-go funding of implicit subsidy amounts until the current phase-in agreements expire and pre-funding contributions for the implicit subsidy after the current phase-in agreements expire.

<b>City of San Jose Police &amp; Fire Department Plans</b>							
<b>Implicit Subsidy – Projected Contribution Amounts</b>							
(Dollar amounts in millions)							
<b>FYE</b>	<b>Total Payroll</b>	<b>Police</b>		<b>Fire</b>		<b>Total</b>	
		<b>Amount</b>	<b>Rate</b>	<b>Amount</b>	<b>Rate</b>	<b>Amount</b>	<b>Rate</b>
2013	\$190.7	\$3.1	2.58%	\$1.7	2.45%	\$4.8	2.52%
2014	\$190.7	\$3.1	2.54%	\$1.7	2.41%	\$4.8	2.52%
2015	\$197.4	\$9.2	7.31%	\$1.6	2.26%	\$10.8	5.47%
2016	\$204.3	\$9.5	7.30%	\$1.7	2.25%	\$11.2	5.48%
2017	\$211.5	\$9.6	7.14%	\$5.6	7.37%	\$15.2	7.19%

We hereby certify that, to the best of our knowledge, this letter and its contents, which are based on the information and data supplied by City of San Jose Police & Fire Department Retiree Medical and Dental Insurance Plan (OPEB Plan), are work products of Cheiron, Inc. These work products are complete and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

These projections were prepared exclusively for the City of San Jose for the purpose of budget projections. These projections are not intended to benefit any third party. If you have any questions about this analysis, please let us know.

Sincerely,  
Cheiron



William R. Hallmark, ASA, EA, MAAA  
Consulting Actuary



Margaret Tempkin, FSA, EA, MAAA  
Principal Consulting Actuary

cc: Gene Kalwarski  
Carmen Racy-Choy